

TASK 1.1

THE POTENTIAL AND PERFORMANCE OF THE LOCAL PROPERTY TAX

Prepared for

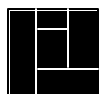
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TASK 1.1

THE POTENTIAL AND PERFORMANCE OF THE LOCAL PROPERTY TAX

INTRODUCTION

Background on Property Tax Administration

The property tax is one of the four purely local taxes all of which are collected by the Regional Tax Office (RTO) on behalf of the local municipal government.¹ In 1998 the Law on Local Taxes and Fees raised the tax rates on real property about ten fold in order to compensate for the very high rates of inflation over the past several years that had eroded the value of the tax base. At the same time, the Law required all property owners to re-register their property with the RTO.

There is beginning to be a national debate in Bulgaria over whether the property tax can become a major local revenue source as it is in many other countries. There are two dimensions to this question in Bulgaria:

- Should the property tax be transferred to direct local control—i.e., should it be decentralized?
- Should the tax rates be allowed to rise substantially so that the property tax can become a significant local revenue source?

These two questions are closely linked since the current yield of the property tax is so low that it probably cannot be justified on financial grounds to shift such a low yielding revenue source from one level of government to another.

The current study is examining both the administration of the current property tax system and this question about decentralizing control from the national RTO to municipal control. The complete re-registration of all property in 1998 and the imposition of new rates has given us the opportunity to examine first the administrative procedures of the property tax system in Plovdiv.

We begin with the re-registration process. Although there was some confusion over filling out the registration document, compliance with the process and the deadlines appears to be extremely high. Virtually all property in Plovdiv seems to have been re-registered by the May 31, 1998 deadline and tax liability

¹The RTO collects other taxes on income and profits but these are shared by formula between the national and local governments; the garbage fee may also be considered a “tax” since it is applied on the same base as the property tax for residences, but it is defined by statute as a fee and the rate is set by the local municipal council.

notices were issued beginning in August 1998 as the computerized databases came on line.

Normally, the RTO does not notify the taxpayer of his/her liability. Rather, the taxpayer must go to the RTO district office and inquire as to the tax liability for the year. This year the RTO did send notices for property tax liability (combined with the garbage fee assessment) since the re-registration process was carried out. Furthermore, the property tax notices were sent to each and every owner of property. In Plovdiv, the number of property tax notices number 171,637 for 1998 within the city jurisdiction covering approximately 118,000 premises - both households and businesses.

Property Tax Yield and Efficiency

The property tax yield has been quite low in the past and, even with a ten fold increase in rates, it will not yield more than 2-3 percent of Plovdiv's local revenues in 1998. The property tax rate is set by the Parliament in national legislation and is accompanied by a number of statutory exemptions and reductions that further reduce the yield. The principal exemption is for owner occupancy which, in fact, applies to virtually all residential property without being subject to a "means test," i.e., based on income.

The basic tax rate is BGL1.5 per thousand of rated value or 0.15 percent of the estimated "market" value. The market value of individual properties is, in fact, not estimated but a surrogate valuation schedule is used based on building area, age, construction type, land area and location.

While the RTO staff indicated that they consider the calculation of rated value to be close to the actual market value of properties across the board, there is some question as to whether this is true and, as importantly, how large are the discrepancies for individual properties.

While the yield of the property tax is admittedly quite low, the RTO has in the past maintained quite high collection rates, in the neighborhood of 95 percent. On the other hand, since the property tax system is based on self registration, there is some concern as to whether the tax listing is accurate and the extent to which tax revenues are being lost through the extensive use of exemptions.

The Plovdiv Fiscal Decentralization Project was asked to assess the performance of the property tax system in 1998, particularly in terms of estimating where revenues may be lost due to:



- Problems with tax listing (discovery of taxable property)
- Problems with collections
- Tax exemptions

The Project team was also asked to make recommendations about how the property tax administration could be improved and whether or not the property tax could become a major local tax source under the direct administration of the municipality.

Design of the Assessment Study

To answer the questions about the performance of the property tax in Plovdiv, the Project team designed a survey in one district of the city. The survey was designed to be representative in the sense that the area chosen contains a wide range of property types and land uses.

The survey was designed to examine just how effective the re-registration process was in terms of capturing properties on the tax rolls; how complete and accurate the recorded data are on the tax rolls; how effective the collection procedures are; and, how much of the total tax liability is actually lost through exemptions; unregistered property and missing, or mistaken, property assessments (this latter may be due to mis-measurement of the property or lack of complete data.) The survey also included some attitudinal measures of the property owners in terms of willingness to pay and reports of payment, which can be cross checked with the data from the RTO.

Objectives:

- To determine the structure of the ownership in a selected district
- To analyze and evaluate the reasons for losses of tax revenues
- To analyze and evaluate the effectiveness and the efficiency of the tax inspections
- To calculate the effective tax rate and to evaluate the tax burden on the population
- To evaluate the knowledge of the people and their attitude to pay property tax

The Study Team² has employed three types of instruments in order to fulfill the goals and the objectives of the survey:

²The team leader of the survey is Stefan Ivanov, Club "Economika 2000" and team members: Lina Ivanova, manager of the questionnaire survey and Guenko Milev, manager of the documentary survey. During the period of the survey, we were very pleased to have the cooperation of Mr. Kratinov, Chief of the Regional Tax Office, Mrs. Stoyanova, Deputy Chief of the Regional Tax Office, Mrs. Shishkova, Chief of the South District tax office, Mr. Petrov, Chief of the Information Department in the Regional Tax Office, Mrs. P. Tarpova, Secretary of Plovdiv Municipality, Mrs. V. Semerdjieva, Chief of "Cadaster" Department in the South District, tax inspectors from the South District Tax Office and staff of South District Administration, who conducted the survey of the residents from the South District in Plovdiv.



- Processing of the submitted property tax declarations for the properties in the selected district
- Conducting of questionnaire survey with the residents in the area
- Collection of cadaster information and information from the construction plans for selected sites in the area, and their comparison with the data from the property tax declarations and from the questionnaire survey

GENERAL PARAMETERS OF THE SAMPLE AND ORGANIZATION OF THE SURVEY

The criterion, used to select a subject of the survey was: compact area in the city, in which are located different properties, approximately corresponding to the structure of the properties in the city—blocks of flats, houses, yards, garages, business sites, additional buildings, public buildings (state, municipal, etc.). The selection was done after consultations with representatives of the Regional Tax Office and the municipality in Plovdiv. The area is located in South District, and is enclosed between Skopie Street and Georgi Kondolov Street on the north, Dimiter Talev Street on the west, Vaptsarov Boulevard on the south, Gorno Brodi Street and Kichevo Street on the east. From an organizational point of view it was divided into four sub-areas:

- First—between G. Kondolov Street, D. Talev Street, Vaptsarov Blvd, and Macedonia Street
- Second—between Skopie Street, Macedonia Street, Gorno Brodi Street, and Kichevo Street
- Third—between Kichevo Street, Macedonia Street, Vaptsarov Blvd, and Gorno Brodi Street
- Fourth—the blocks from 162 to 165 on Kichevo Street

During the survey the following basic terms were used:

- *Administrative Address*: street and respective number. In the blocks, every apartment was accepted as a separate address
- *Site*: separate physical object (house, apartment, garage, shop, shelter, etc.)

- *Property*: one or several physical objects, owned by one or several co-owners, owners of ideal parts (for example one parent owns 4/6, and each of two children owns 1/6 ideal parts from a house, terrain and garage)

The quantity parameters of these three terms are not distinctly separate but they overlap. For example one property may consist of two sites, and one site may be divided into two properties. Some commercial sites located between the blocks and discovered at the interviews, do not have an administrative address.

Within the above described survey area, the sites are 1321 and their number is the highest. The properties are 1047. The difference is created by:

- The increased number of separated parts of houses. So for example, from 95 houses, the number of separated parts, belonging to separate owners increases to 154
- The decreased number of the rest sites, especially of the additional ones as garages, additional buildings, land, commercial sites, which are mainly included as parts of separate properties

The quantity parameters of the separate surveys are as follows:

- ! *The Questionnaire Survey*: comprises 989 interviews. It was conducted between September 19 - 27, according to a previously developed questionnaire. The interviewers were 10 people, of whom 5 tax inspectors from the South District Tax Office and 5 municipal servants from the South District Administration. The survey covered all the present households at the time of the survey. The interviewers were instructed to collect also information for the properties of the absent citizens in the selected area. This task was fulfilled to a great extent. The weakness of the questionnaire survey was the subjectiveness of the information, given by the interviewed and the impossibility to obtain information for a part of the properties, as for example for a built but still uninhabited house. Of 66 administrative addresses no inhabitants were found, despite the numerous visits by the interviewers. There are different reasons for this: ownership of more than one unit of dwelling; movement of the inhabitants to the villages around Plovdiv due to the harvesting period during this season; municipal dwellings not rented to the public. Another problem in the questionnaire surveys is the fact that participation was not obligatory. Although the citizens have shown a positive attitude, 45 people have refused to be interviewed.



- ! *Property tax Declarations:* The data base for the selected area was provided by the Regional Tax Office. It includes 964 property tax declarations. This amounts to 0.77 percent from all the submitted property tax declarations (Appendix 1) for properties in Plovdiv municipality and 3.44 percent from the submitted property tax declarations for the South District. The advantage of this type of survey, compared to the questionnaire survey, is to receive information from owners of property, who don't live in the district. The disadvantages are connected with the incomplete data base due to problems in the organization of the processing of the property tax declarations. The information for the municipal property in the survey area was additionally collected, but we did not dispose of the property tax declarations of business entities for their property in the area, as well as for the state-owned property.
- ! *Survey on the Cadaster and the Construction Plans:* There were checked 414 sites. It was found out that the South District Administration has extremely poor archives, and an old and non-updated cadaster plan. This determined the selection of the inspected sites and the impossibility to link the proportion of the inspected sites with the one of the existent sites in the area. In practice, there was used the whole available information, and it is for 6 houses, for which were found construction plans from the end of the 40ies and the beginning of the 50ies; for 4 new brick blocks, which include 12.8 percent of the apartments, 3.1 percent of the garages, and 2.7 percent of the commercial sites, from all the inspected sites. There was made a complete inspection of the existent plots according to the old cadaster (22 percent from the whole sample). The apartments in the panel blocks amount to 58 percent from the inspected sites and the information for them was taken from the notary certificates of the owners.

The distribution of the interviews, the property tax declarations and the documentary inspections according to sub-areas is presented in Table 1.

Table 1

Quantity scope of the used instruments according to sub-areas of the selected survey area

Sub-areas	Property tax Declarations	Interviews	Inspections
First	198	190	102
Second	88	78	72
Third	171	159	80

Fourth	507	562	160
Fifth	964	989	414

We have used the three different data collection techniques to compile a composite view of the real property tax base in the sample area. Each of the three instruments has its own information advantages and disadvantages, and contributes for the forming of the overall picture in the study area.



STRUCTURE OF PROPERTY OWNERSHIP

Structure of the Sites

Table 2 shows the classification by ownership and housing type of the sample properties, based on combined data from the three instruments used in the survey.

Table 2
Sites in the survey area

Sites	1st sub-area	2nd sub-area	3rd sub-area	4th sub-area	Total	Relative share
Public institutions	—	—	3	10	13	1.0
Apartments	144	18	176	585	923	69.9
Houses	51	44	—	—	95	7.2
Garages	31	15	45	—	91	6.9
Additional buildings	32	26	—	—	58	4.4
Commercial and other business sites	29	12	4	2	47	3.5
Land plots	52	41	1	—	94	7.1
Total	339	156	229	597	1321	100.0
Relative share	25.9	11.9	17.5	45.7	100.0	

The public institutions comprise the municipal school “Yane Sandanski”, consisting of three buildings, terrain and a kindergarten, which uses as premises 10 apartments on the first floors of Block 165, situated on Kichevo Street.

The apartments are mainly divided into two types - apartments in panel blocks and apartments in brick blocks. The determination of the number of apartments in panel blocks, which are situated mainly in sub-areas 3 and 4, did not cause any difficulties. The problem was to determine the number of the apartments in the brick blocks, situated in the first two sub-areas (See Appendix 1, Tables 1 and 2). Neither of the inspections produced satisfactory results. On the non-interviewed addresses 1 and 3 P.Vaskov Street, there have been declared 36 apartments. There have been declared 4 more apartments on 10 L. Madjarov Street, where the interviewers state that the building does not have an occupancy permit. Meanwhile, the documentary inspection of the construction plans for the latter address indicates 25 apartments. On the other hand, the interviewees have discovered 36 undeclared apartments in the first sub-area,

and 7 in the second sub-area. The municipal servants, who have helped in the filling of the declarations explained that the owners of the apartments under construction, which will be completed till the end of the year, should be taxed and they have submitted declarations. There occurs the problem, what will happen with the tax, paid for the apartments under construction, which will not be completed. These cases are not mentioned when using the information from the interviews in determining the number of the apartments. In practice, another 30 apartments in the first and the second sub-areas have become eligible for taxation, or will soon become.

The biggest problem was to determine the number of the houses. Here, we based ourselves on the data from the questionnaire survey, which discovered 7 undeclared houses in the first sub-area, 4 of them are municipal (the ownership of half of it was restored to the previous owner), and 2 houses in the second sub-area. In practice, the declared houses are much more, totally 147, but here again we mean ownership on separate parts. The data from the documentary inspection of 6 addresses in sub-area 2, which we managed to find in the municipal archives, is very old and it could not help to clear the number of the houses (See Appendix 2).

The numbers of the garages in the first two sub-areas according to the property tax declarations and the questionnaire survey, almost coincide. But this should not misguide us. As it could be seen from Appendix 1, both kinds of inspections have contributed to the completing of the information. A considerable difference between them is observed in sub-area 3. There have been declared 20 garages, and the interviews have discovered only 10. Even more, one needs only to walk around the sub-area in order to see that in front of Block 158 on Nikola Karev Street, there is a whole row of garages. The people from the neighborhood say that they have been built in August with the permission of the municipality. It is curious to know whether the tax office has information about this.

There are similar problems with the other buildings - additional buildings and sites for commercial and other business activity. In a comparative plan, the data base of the property tax declarations is better in the case of apartments, and the interviews discover more additional buildings and commercial sites, especially declared garages which are used for business activities. This is also confirmed by the data in Appendices 2 and 3, where is presented comparative data, obtained according to the three kinds of inspections, respectively for 6 houses and 4 brick blocks.

According to the cadaster plan, the total number of the plots in the first and the second sub-area is 91. The questionnaire survey discovered two more unbuilt plots in the first sub-area, one of which is known to the municipality (9, L.



Madjarov Street), and the other (on 37, D. Talev Street) not known to the municipality. The first one is documented as a municipal property, and the second one not, but possibly it is a municipal property, too. In the second sub-area, there were discovered two new plots, but the inspection found out that this is actually one plot, which was divided into two parts according to the existent regulation plan.

The data from the questionnaire survey for the property of the households proved the structure presented above. The people living in apartments constitute 81 percent from all the interviewed, and the people living in houses, 15 percent. If we make a projection of the results on the 1047 properties, existent in the area, this makes 840 apartments and 157 separated parts from houses. The residents of the apartments were more absent, or they have refused to respond. From the residents of the houses, 32.8 percent own shelters and additional buildings, which is about 52 pieces. Our attention was attracted by the considerably lower number of the garages, 5.9 percent from the interviewed have stated that they own a garage. Ownership on commercial and other business sites was declared by 4 percent from the interviewed people.

Structure of Property Ownership and Usage

The information for the structure and the forms of ownership was obtained from the “Municipal property” and “Cadaster” departments of the South District Administration; from the municipal enterprise “Zhilfond”; from the data base of the property tax declarations and the questionnaire survey. The results are presented in Table 3.

Table 3
Structure of the ownership according to types of sites

Types of sites	Total	Private	Municipal	State firms
Public	13	—	13	—
Apartments	923	864	47	12
Houses	95	91	4	—
Garages	91	91	—	—
Additional buildings	58	58	—	—
Commercial and other business sites	47	45	1	1
Land	94	86	8	—
Total	1321	1235	73	13
Share	100.00	93.49	5.53	0.98

In our sample most of the sites are private, which reflects the ownership patterns of the city overall. The municipality owns 5.5 percent of the sites, but the calculations for the land area (presented in Table 4) considerably increase its share. This is mainly due to the school, whose summed size of all floors and especially the big yard, have a crucial weight. The structure of the ownership only for the buildings without the land is the following: private 88.91 percent, municipal 10.33 percent and state 0.76 percent.



Table 4
Structure of the ownership according to area in sq. m.

Types of sites	Total	Private	Municipal	State companies
Public	5317	—	5317	—
Apartments	60401	57158	2633	610
Houses	11574	11147	427	—
Garages	1772	1772	—	—
Additional buildings	1000	1000	—	—
Commercial and business sites	1455	1402	45	8
Land	49397	31958	17439	—
Total	130916	104437	25861	618
Share	100.00	79.77	19.75	0.47

The results from the survey confirm the data presented above. The total number of the interviewed people is 878. From them 675 are owners (76.9 percent) and 203 non-owners (inhabitants and tenants of private, municipal and state property), 23.1 percent. From the interviewed non-owners 65.5 percent use private property, 30 percent use municipal property, and 4.5 percent state firms and organisations. This means that the structure of the property, according to the results from the survey is as follows:

- 92 percent—private property, of which 76.9 percent is used by the owners themselves and 15.1 percent rented or given to friends and relatives
- 6.9 percent—municipal property, rented
- 1.1 percent—property of state firms

From the non-owners, who use the property 73.4 percent are tenants, 19.25 percent are relatives or friends of the owners and 7.4 percent from the interviewed live temporarily with the owners.

In relation to the structure, the non-owners use the following property: 86.2 percent apartments; 9.9 percent houses; 1.5 percent garages; 4.4 percent land; 1.9 percent shelters and other additional buildings; 4.9 percent commercial and manufacturing sites.

The majority of the owners, who rent property (90.6 percent) live in Plovdiv; 2.5 percent live around Plovdiv; and 6.9 percent live outside the Plovdiv region or abroad.



REASONS FOR LOSS OF TAX REVENUES

General Notes

In order to make a more correct evaluation of the factors, which influence the loss of tax revenues, we have conducted the analysis in two directions: according to sub-areas and according to sites.

The first sub-area is the one which includes the greatest variety of buildings, apartments, houses, garages, additional buildings, commercial sites. The second sub-area consists mainly of houses, garages, additional buildings, and commercial sites. The panel blocks prevail mainly in the third and the fourth sub-area, where the municipal property is also widely represented. The analysis according to sub-areas covers only the different types of buildings (without land).

The second direction of the analysis is according to sites: dwelling units, houses; apartments; garages; additional houses; commercial sites; and land.

The tax evaluations for the undeclared properties for the different sub-areas and types of properties, is done in the following way. For the panel apartments, the information for their size, taken from the notary certificate, is multiplied by the average evaluation for 1 sq. m. from all the declared apartments for the respective block. These are all the dwelling units from the third and the fourth sub-area. For the other two sub-areas, the tax evaluation for 1 sq.m. according to sub-areas and types of property is multiplied by the calculated average size for the respective type of property.

The results, presented below are based on the information from the tax declarations, provided to us by the Regional Tax Office in Plovdiv. One should have in mind that this data base is not complete due to two reasons: first, there continue to come processed declarations for properties in Plovdiv from other regions of the country; and second, it is possible that certain declarations may have been lost. When comparing the results from the questionnaire survey with the data base from the property tax declarations, we discovered cases when the people declare that they have received a notification and even paid their property tax for properties for which no property tax declaration exists.

Analysis and Evaluation According to Sub-Areas

First Sub-Area

This sub-area is characterised with the greatest variety of properties. Here, we have observed the most substantial difference between interviews, property tax declarations and construction plans. This made the sub-area the most

complicated for inspection. The data for the size, the tax evaluation and the property tax, presented in tables 5, 6, and 7, does not include the brick block on 10, L. Madjarov Street. It should be checked whether an occupancy permit has been issued for this building. In this case we trusted the interviewers. The data, presented in Appendix 3 shows what is the difference between the declared properties, and those which are supposed according to the construction plans. The tables don't include the non-interviewed addresses on 1 and 3 P. Vaskov Street. The analysis of the property tax declarations indicates that this is a brick block with two entrances and 46 apartments. There have been declared only 36 apartments. In the second inspected brick block on 50 N. Vaptzarov Boulevard. the interviewers have discovered 3 undeclared apartments, a garage and a house. According to the plan, there should also exist another garage. The problem is that these apartments belong to one person, who has stated that everything has been declared. The reason for the lack of property tax declarations is not known. We are impressed by the great number of missing property tax declarations for the two panel blocks on 31-35 D. Tasev Street, and 2-6 Tavria Street. They are 31 from the total of 90 apartments.

Table 5
Size of the Declared and Undeclared Sites According to Types and Forms of Ownership (sq.m.)

Types of sites	Total size	Declared sites	Undeclared sites, including:		
			Municipal	State firms	Private
Houses	7164	6457	427		280
Apartments	10656	7997			2659
Garages	590	501			89
Additional buildings	680	494			186
Commercial, etc.	1005	747			258
Total	20095	16196	427	—	3472
Relative share	100.00	80.60	2.12	—	17.28



Table 6

Tax evaluation of the declared and the undeclared sites according to types and forms of ownership (thousand BGL)

Types of sites	Total tax evaluation	Tax evaluation of the declared sites	Tax evaluation of the undeclared sites, including:		
			Municipal	State firms	Private
Houses	651401	587116	38826		25460
Apartments	1639319	1230258			409061
Garages	54048	45895			8153
Additional buildings	21032	15279			5753
Commercial, etc.	159063	118229			40834
Total	2524863	1996777	38826	—	489260
Relative share	100.00	79.08	1.54	—	19.38

Table 7

Tax due for the declared and the undeclared sites according to types and forms of ownership (thousand BGL)

Type of sites	Total tax due	Tax due Declared sites	Tax due for undeclared sites			Tax paid	Reduction of the tax
			Municipal	State firms	Private		
Houses	977102	880673	58239		38189	536500	344173
Apartments	2458979	1845388			613591	1090230	755158
Garages	81090	68860			12230	68860	—
Additional buildings	31550	22920			8630	22920	—
Commercial etc.	238570	177320			61250	177320	—
Total	3787295	2995161	58239	—	733890	1895830	1099331
Relative share	100	79.08	1.54	—	19.38	50.06	29.03

We have monitored a mass non-declaration of additional buildings and commercial sites, respectively 13 and 12. The most typical cases, found in the matching of the property tax declarations and the interviews are the following:

- Declared shelter, and in fact there exists a garage or a commercial site. The difference in the tax evaluation and respectively in the property tax

between a shelter and a garage is 1:3, and between a shelter and a commercial site is 1:5

- Declared garage, and in fact it is used as a commercial site



The main conclusions for the first sub-area are:

- Considerable difference in the data according to the different types of inspections; from the 55 inspected addresses, only for 12 of them the survey has fully confirmed the information, declared in the property tax declaration
- Many undeclared apartments, including in the panel blocks, which is not typical for the other sub-areas; as it could be seen from the data, the loss of tax revenues is generated mainly by them
- Considerable relative share of undeclared additional buildings and small commercial sites

Second Sub-Area

This is the smallest sub-area, but it has a great variety of properties. Here have been submitted 88 property tax declarations for 41 addresses. There have been interviewed 78 people on 43 addresses. On the 2 newly discovered addresses (resulting from the separation of 2 parts of existent addresses), there were found 2 houses, a garage and a shelter. Only for 18 addresses the data from the interviews coincides with the declared properties. The comparing of the information from both types of inspections shows that for the rest 25 addresses there have not been declared 14 shelters, 3 garages and 6 commercial sites. The loss of tax revenues from them is presented in Tables 8-10.

Table 8
Size of the declared and undeclared sites according to types and forms of ownership (sq. m.)

Type of sites	Total size	Declared sites	Undeclared sites, including:		
			Municipal	State firms	Private
Houses	4410	4230			180
Apartments	1545	1545			
Garages	290	234			56
Additional buildings	320	138			182
Commercial, etc.	355	176			179
Total	6920	6323	—	—	597
Relative share	100.00	91.37	—	—	8.63

Table 9

Tax evaluation of the declared and the undeclared sites according to types and forms of ownership (thousand BGL)

Types of sites	Total tax evaluation	Tax evaluation of the declared sites	Tax evaluation of the undeclared sites, including:		
			Municipal	State firms	Private
Houses	343495	329475			14020
Apartments	284388	284388			—
Garages	29061	23449			5612
Additional buildings	10060	4338			5721
Commercial, etc.	52043	25801			26241
Total	719046	667452	—	—	51595
Relative share	100.00	92.82	—	—	7.18

Table 10

Tax due for the declared and the undeclared sites according to types and forms of ownership (thousand BGL)

Type of sites	Total tax due	Tax due Declared sites	Tax due for undeclared sites			Tax paid	Reduction of the tax
			Municipal	State firms	Private		
Houses	515242	494212			21030	332240	161972
Apartments	426582	426582			—	306260	120322
Garages	43630	35230			8400	35230	—
Additional buildings	15100	6520			8580	6520	—
Commercial, etc.	78070	38720			39350	38720	—
Total	1078624	1001164	—	—	77360	718970	282294
Relative share	100	92.82	—	—	7.18	66.66	26.16

Like in the first sub-area, here we have seen again a difference in the information for the new brick blocks (See Appendix 3). It is possible to have changes in the construction plans, but this could be a case of undeclared sites. The two brick blocks in the second sub-area have not been included in the calculations for the loss of tax revenues. We recommend the municipality and the tax office to pay special attention to this type of sites in future inspections.



Third Sub-Area

For the third sub-area there were submitted 171 property tax declarations and 159 interviews were conducted. A complete inspection was done to one block of flats (Block 158 on Nikola Karev Street).

The most important for this sub-area is the difference between the interviews and the property tax declarations in terms of number of garages. There should be made a special inspection for the number of garages belonging to Block 167 on Macedonia Boulevard. There have been declared 20 garages, and the interviewers have discovered only 10. This is one of the disadvantages of the interviews which should be considered in the future. Perhaps, it is necessary first to describe the number of the garages under the blocks and then to look for their owners. Similar is the problem with the garages, built around the blocks, as is the case with the garages near Block 158 on Nikola Karev Street.

The interviewers have discovered 4 commercial sites, of which one is not working (a kiosk for newspapers). For the other 3, no property tax declarations exist, although the owners claim that they have paid the tax.

In the two blocks there are 176 apartments. Only for 4 of them (2 in each block) no property tax declarations have been submitted.

Table 11

Size of the declared and undeclared sites according to types and forms of ownership (sq.m.)

Type of sites	Total size	Declared sites	Undeclared sites, including:		
			Municipal	State firms	Private
Apartments	15422	14970	—	—	452
Garages	892	397			495
School	4317		4317		
Commercial, etc.	95				95
Total	20726	15367	4317	—	1042
Relative share	100.00	74.14	20.83	—	5.03

Table 12

Tax evaluation of the declared and the undeclared sites according to types and forms of ownership (thousand BGL)

Type of sites	Total tax evaluation	Tax evaluation of the declared sites	Tax evaluation of the undeclared sites, including:		
			Municipal	State firms	Private
Apartments	2511914	2441108	—	—	70806
Garages	139551	62026			77524
School	561210		561210		
Commercial, etc.	13927	—		—	13927
Total	3226601	2503134	561210	—	162257
Relative share	100.00	77.58	17.39	—	5.03

Table 13

Tax due for the declared and the undeclared sites according to types and forms of property (in BGL)

Type of sites	Total tax due	Tax due Declared sites	Tax due for undeclared sites			Tax paid	Reduction of the tax
			Municipal	State firms	Private		
Apartments	3767870	3661662	—	—	106208	2078900	1582762
Garages	153509	93070			116287	93070	—
School	841815		841815				
Commercial, etc.	20890				20890		
Total	4784085	3754732	841815	—	243385	2171970	1582762
Relative share	100.00	78.48	17.60	—	5.09	45.40	33.08

The inspection and the comparative analysis of the declarations with the actual size of the dwellings has proved certain malpractice for the panel apartments. From 80 apartments:

- 2 undeclared apartments and one cellar belonging to an apartment. The total size is 140 sq.m.
- 46 apartments - not completely declared. The difference amounts to 121.6 sq.m.



- 21 apartments have declared more than the actual size. The difference amounts to 18.4 sq.m.

The summary is: from the area of 6284 sq.m. there were less declared 262.5 sq.m., of which 243.2 sq.m. residential area and 19.3 sq.m. of cellars. In practice only in 16 cases we have declared differences of less than 6-7 sq.m.

The effective tax rate for the declared properties is 0.8239 percent, and for all the existent properties—0.7895 percent.

Fourth Sub-Area

For this sub-area there have been submitted 507 property tax declarations. There have been made 562 interviews. The total number of the apartments is 585, located in the blocks 162-165 on Kichevo Street. Although this sub-area has the highest number of properties, they have a homogeneous character, which makes this sub-area easy for inspection. The only problem here was caused by the great number of mistaken addresses. Here are situated the majority of municipal properties, and all the sites owned by state companies and organizations.

Only for this sub-area it was possible to work with the real size according to the notary certificates, that's why the calculations for the declared and the undeclared properties are the most precise from all. The total number of undeclared private apartments for the four blocks is 19, but the undeclared size includes also the difference between the declared and the actual size for the rest dwellings. The information is presented in Tables 14-16.

Table 14
Size of the declared and undeclared sites according to types and forms of ownership (sq.m.)

Type of sites	Total size	Declared sites	Undeclared sites, including:		
			Municipal	State firms	Private
Apartments	32778	28463	2633	610	1072
Kindergarten	1000		1000		—
Total	33778	28463	3633	610	1072
Relative share	100	84.27	10.76	1.81	3.17

Table 15

Tax evaluation of the declared and the undeclared sites according to types and forms of ownership (thousand BGL)

Type of sites	Total tax evaluation	Tax evaluation of the declared sites	Tax evaluation of the undeclared sites, including:		
			Municipal	State firms	Private
Apartments	4744426	4119934	381087	88310	155095
Kindergarten	144746		144746		
Total	4889172	4119934	525833	88310	155095
Relative share	100.00	84.27	10.76	1.81	3.17

Table 16

Tax due for the declared and the undeclared sites according to types and forms of ownership (thousand BGL)

Type of sites	Total tax due	Tax due Declared sites	Tax due for undeclared sites			Tax paid	Reduction of the tax
			Municipal	State firms	Private		
Apartments	7116640	6179902	571631	132464	232643	3499270	2680632
Kindergarten	217119		217119				
Total	7333758	6179902	788750	132464	232643	3499270	2680632
Relative share	100.00	84.27	10.76	1.81	3.17	47.71	36.55

The comparing of data between the interviews and the property tax declarations shows that for 3 apartments, for which no declarations were found, the owners have already declared their property and even paid the tax.

A more detailed analysis was made for Block 162. It has 5 entrances and 160 apartments. The undeclared apartments are 5, with a total area of 243.6 sq.m. The municipal apartments are 20. From the 135 declared apartments, one part have declared a smaller area, and others a larger area. The differences are so small that the total sum is minus 23 sq.m.

As it could be seen, the difference between the declared and the real area in the panel blocks is very small. The future inspections should concentrate only on the undeclared sites.



Analysis and Evaluation According to Types of Sites

Dwelling Units

The data from Tables 17-19 shows that the share of the undeclared dwelling buildings is comparatively low, 7 percent for the apartments and 4 percent for the houses. About 2/3 from the undeclared apartments are in the first sub-area.

Table 17

Size of the declared and undeclared dwelling units according to forms of ownership (sq.m.)

Type of sites	Total size	Declared sites	Undeclared sites, including:		
			Municipal	State firms	Private
Apartments	60401	52975	2633	610	4183
Relative share	100.00	87.71	4.36	1.01	6.926
Houses	11574	10687	427	—	460
Relative share	100.00	92.34	3.69	—	3.97

Table 18

Tax evaluation of the declared and undeclared dwelling units according to forms of ownership (thousand BGL)

Type of sites	Total tax evaluation	Tax evaluation of the declared sites	Tax evaluation of the undeclared sites, including:		
			Municipal	State firms	Private
Apartments	9180047	8075689	381087.00	88310	634961
Relative share	100	87.97	4.15	0.96	6.92
Houses	994896	916590	38826	—	39480
Relative share	100	92.13	3.90	—	3.97

Table 19

Tax due for the declared and undeclared dwelling units according to forms of ownership (in BGL)

Type of sites	Total tax due	Tax due for declared sites	Tax due for undeclared sites			Tax paid	Reduction of the tax
			Municipal	State firms	Private		

Apartments	137700 71	12113534	571630	132464	952442	697466 0	513887 4
Relative share	100.00	87.97	4.15	0.96	6.92	50.65	37.32
Houses	149234 4	1374886	58238	—	59220	868740	506145
Relative share	100.00	92.13	3.90	—	3.97	58.21	33.92

The prevalent share of the apartments as types of property, makes them a major factor for losing of tax revenues even if the percentage of undeclared apartments is very low. The total amount of due tax from undeclared private dwellings exceeds BGL 1 Million, 95 percent of which comes from apartments. The conclusion, which is proved from the analysis of the sub-areas, is that the future inspections should be concentrated in two directions:

- Complete inspection of the brick blocks
- Identification of the undeclared apartments and focus of the inspection only on them

Non-Dwelling Buildings

This type of sites are concentrated in the first three sub-areas. As it could be seen from the presented Tables 20-22, two features are characteristic for them: first, all of them are private; second, over one third for them are undeclared.

Table 20
Size of the declared and undeclared non-dwelling buildings according to forms of ownership (sq.m.)

Type of sites	Total size	Declared sites	Undeclared sites, including:		
			Municipal	State firms	Private
Garages	1772	1132			641
Relative share	100.00	63.85			36.15
Additional buildings	1000	632			368
Relative share	100.00	63.20			36.80
Commercial, etc.	1455	923			532
Relative share	100.00	63.44			36.56



Table 21

Tax evaluation of the declared and undeclared non-dwelling buildings according to forms of ownership (thousand BGL)

Type of sites	Total tax evaluation	Tax evaluation of the declared sites	Tax evaluation of the undeclared sites, including:		
			Municipal	State firms	Private
Garages	222660	131371			91289
Relative share	100.00	59.00			41.00
Additional buildings	31091	19617			11474
Relative share	100.00	63.10			36.90
Commercial, etc.	225033	144031			81002
Relative share	100.00	64.00			36.00

Table 22

Tax due for the declared and undeclared non-dwelling buildings according to forms of ownership (in BGL)

Type of sites	Total tax due	Tax due Declared sites	Tax due for undeclared sites			Tax paid	Reduction of the tax
			Municipal	State firms	Private		
Garages	278270	197160	—	—	81110	197160	—
Relative share	100.00	70.85	—	—	29.15	70.85	—
Additional buildings	46650	29440	—	—	17210	29440	—
Relative share	100.00	63.10	—	—	36.90	63.10	—
Commercial, etc.	337540	216040	—	—	121500	216040	—
Relative share	100.00	64.00	—	—	36.00	64.00	—

The situation here is the opposite to the dwellings. The large relative share of the undeclared sites is combined with their relatively small number and lower tax evaluation (the commercial sites make an exception). This leads to a certain loss of revenues. But the almost epidemic non-declaration of these sites may have a negative impact on the low tax discipline of the Bulgarian, if it is not stopped on time.

Land

— Tax evaluation: 10500 BGL per 1 sq.m.

— Tax: 15.75 BGL per 1 sq.m.

The analysis of the losses of tax revenues for the land, is based on the comparison of the size of the plots according to the regulation plan, with the information from the property tax declarations. And because the cadaster is very old, in cases of difference with several sq.m. we have adopted the evaluations from the tax declarations. The partially calculated and respectively collected tax is due to the reason that some co-owners have not declared their part of the land, and respectively they have not paid their tax. The same is the situation with the overpaid. One of the owners pays tax for the whole land, and the other co-owners pay tax only for their parts. This is a question of incorrect declaration, and may be a question of incorrect calculation. The results from the analysis are presented in Tables 23-26.

Table 23
Size of the declared and the undeclared land in the first sub-area (sq.m.)

	Address (number)	Relative share (in percent)	Land total	Relative share (in percent)	Declared land	Difference
Declared correctly	17	31.48	7985	32.00	7985	—
Declared less	8	14.81	3938	15.78	2451	1487
Not declared	16	29.63	6947	27.84		6947
including municipal	7	12.96	3006	12.05		3006
Declared more	13	24.07	6085	24.38	10720	-4635
Total	54	100.00	24955	100.00	21156	3799

Table 24
Tax due for the declared and the undeclared lands in the first sub-area (in BGL)

	Tax due	Tax paid	Paid/due	Difference
Declared correctly	125700	125700	1.00	—
Declared less	62020	38620	0.62	-23400
Not declared	109350			-109350
including municipal	47310			-47310
Declared more	95830	169780	1.77	73950
Total	392900	334100	0.85	-58800

The total number of addresses for the first sub-area is practically 52. The difference comes from the double accounting of one plot, half of which was



returned to its original owner (42, Vaptsarov Boulevard.), and in one declaration for ownership on land, which may be is mistaken - the owner of an apartment on the 5th floor in a panel block has declared that he owns land equal to the size of the apartment.

In the first sub-area, the total number of submitted declarations in which ownership on land is stated is 75 (without this from the above mentioned case). The undeclared plots are 16, of which 7 municipal, i.e., 9 private owners have not declared their land. From all the plots, only 31 percent (17 pieces) have been correctly declared.

In the first sub-area, there are substantial differences (20-30 sq.m.) for some plots between the declared size and the size from the cadaster plan. We cannot say who is right. It is necessary the plots to be measured.

If we exclude the municipal terrains, the total loss of tax revenues, only from the land is 85440 BGL, which in percentage to the tax due is 24.7 percent.

Table 25

Size of the declared and the undeclared land in the first sub-area (sq.m.)

	Address (number)	Relative share (in percent)	Land total	Relative share (in percent)	Declared land	Difference
Declared correctly	21	51.22	5095	50.91	5095	—
Declared less	11	26.83	2585	25.83	1457	1128
Declared more	9	21.95	2328	23.26	3613	-1285
Total	41	100.00	10008	100.00	10165	-157

Table 26

Tax due for the declared and the undeclared lands in the first sub-area (in BGL)

	Tax due	Tax paid	Paid/due	Difference
Declared correctly	81090	81090	1.00	—
Declared less	40700	22920	0.56	-17780
Declared more	36650	56860	1.55	20210
Total	158440	160870	1.02	2430

In the second sub-area there are totally 41 plots. There have been submitted 68 declarations for land. Only one plot was not declared. For 21 plots (50.9 percent) the declarations indicate the correct size of the owned land. For

11 plots the declared land is less than the actual (including 1 undeclared). For 9 plots there is over taxation of the land.

In the second sub-area, the differences between the declared size of the land and the size according to the regulation plan, are less. There is only one case where a difference of 25 sq.m. is discovered (there was declared less). For one case there is an obvious technical error, incorrectly calculated tax evaluation, and therefore 1160 BGL of tax which is more than the actual amount. The loss of tax revenues for the second sub-area amount to 17780 BGL, which is 11.2 percent to the tax due.

In the third sub-area, there is only one separated plot and it belongs to the school. Its size is 14433 sq.m. The tax which should have to be calculated, if the land was not municipal, amounts to 227300 BGL.

The main conclusions from the analysis of the land are the following:

- From 87 private plots, only 38 are declared and taxed correctly
- The lack of correct cadaster information about the size of the plots does not provide an opportunity to determine exactly the differences between the actually possessed and the declared land
- The total loss of tax revenues only from the land is 103220 BGL, which makes 20.5 percent from the total tax due
- Over assessment is a similar problem resulting from mistakes in reporting actual area

These mistakes contribute almost as much in overpayments as the under assessments revenue, as noted above. The total amount of the overpaid taxes for the land is 94160 BGL from the municipally owned sites, this percentage becomes 58 percent. The largest amount of loss is formed by the statutory reductions of the tax. Although the loss due to undeclared properties liable to taxation, is not as great it still amounts to almost 9 percent of the total tax base.

Table 27
Summary data for the losses of tax revenues and the causing factors

	Amount (in BGL)	Relative share (in percent)
Total tax due	16 703 515	100.00
Paid tax	8 781 010	52.57
Overpaid tax	94 160	0.56



Loss of tax revenues	8 016 665	47.99
including: from municipal sites	904 478	5.41
from reduction of tax	5 645 019	33.80
from undeclared properties	1 467 166	8.78
of state firms	132 464	0.79
of private entities	1 334 702	7.99

According to the data from the questionnaire survey 95.7 percent from the interviewed owners have received a letter with a tax evaluation for their property. From those, who have not received a notification, 6.9 percent have made a mistake in the filling of the property tax declaration, for 3.4 percent there is a mistake in the declaration but it was not a fault of the owners, for 3.4 percent the declarations were still not processed, and 20.7 percent suppose that the notification has been sent but it has been lost in the post office.

The complicated property tax declarations led to a delay with half an year in the receiving of the taxes. Considering that the expected revenues for Plovdiv municipality are BGL 1 Billion, this means that the loss only from interests amounts to BGL 25 Million. If we add the solid waste fee, then the losses of the municipal budget amount to BGL 100 Million. The bad work in the processing of the property tax declarations, if illustrated with 4 percent of non-received declarations means another loss of BGL 40 Million.

One of the main objectives of the municipality and the tax office is to create a data base for the properties. The analysis of the property tax declarations showed that they are not a reliable basis for the achievement of this objective. About 40 percent of the declarations have mistaken addresses, especially about the blocks of flats. The missed entrances, floors and numbers of the apartments, and redundancies are obstacles to determine their exact number. This is mainly valid for the brick blocks, where the number and the size of the dwellings in the different floors is different. Perhaps there are also changes in the construction plans.

The homogeneous character of the panel blocks enables the use of information from the analysis of the data base, as the inspections are focused only on the undeclared properties. For the houses (especially for the additional buildings) and for the brick blocks, it will be necessary to go and inspect on the spot.

EFFECTIVENESS AND EFFICIENCY OF THE TAX INSPECTIONS

One of the accompanying goals of the inspection is to make calculations for the costs and the expected effects in the form of increased revenues. Besides the arguments for the efficiency, another important goal is to increase the tax culture of the population and the related collection of the tax revenues.

In order to make such analyses and evaluations, every one participant in the survey recorded the necessary time for the conducting of the planned activities. The interviewers were also instructed to record the time for the performance of the questionnaire survey. Unfortunately this was not precisely done. The indirect information for this was collected by the co-ordinator of the questionnaire survey. In practice, it was conducted for 6 working days.

The interviewers of the municipality worked individually according to previously distributed administrative numbers/addresses. Four of them conducted the interviewees along with their official duties. The interviews were mainly conducted in the afternoon hours and in the evenings. For one and the same time and similar tasks, the certain interviewers conducted different number of interviews. Two of them conducted about 120 interviews each, and the other two about 70 interviews each. One part of the interviews were not precisely filled.

The fifth municipal servant joined the questionnaire survey during his vacation and conducted the interviews within an eight-hour-working day. The interviews of this municipal servant were conducted very precisely, and for a shorter time than those of the people who performed the interviews along with their official duties.

The interviewers from the municipality received a considerably lower number of refuses, but maybe they have not been so active as the interviewers from the tax office in finding the inhabitants of the monitored dwelling units.

The interviewers of the tax office adopted the team work principle. The addresses were not previously distributed between the certain interviewers, and they were distributed every day, depending on the time which every team member had. Each interview was done by two interviewers simultaneously. The employees from the tax offices stated that in this way they avoid conflicts between the interviewers and the interviewed population. The high number of people refusing to be interviewed is an interesting fact. This is probably connected with the lack of experience and skills on behalf of the inspectors, who conducted the survey, four of the interviewers were young experts with only 3-4 months of working experience. The quality of the interviews is satisfactory and it does not differ from this of the interviewers from the municipality.

Costs for the Conducting of the Inspection



The calculations were done on the basis of the following information:

! Costs per 1 man/day = 9900 BGL. Received after multiplying the average monthly salary, plus the social security contributions and the sum is divided into 21.3, the average number of the working days in the month. The calculated man/days for the performance of the survey = 100. The breakdown is as follows:

- Overall costs (preparation and overall co-ordination) - 10 man/days
- Conducting the questionnaire survey - 60 man/days (10 days ÷ 6 man/days)
- Processing of the questionnaires - 5 man/days
- Documentary inspection and processing - total 10 man/days
- Processing of the property tax declarations - 5 man/days
- Analysis of the results - 10 man/days

! Total costs for working force = 990 000 BGL

! Materials and transport costs = 110 000 BGL

! Total costs = 1 100 000 BGL

Expected Revenues

The calculations of the revenues are based on the data from Table 27 and the share of the processed property tax declarations for the area, compared to the total for Plovdiv, 0.77 percent. The total losses from tax revenues amount to 1 467 000 BGL. If we use the same coefficient for the reductions of the tax, there are received revenues amounting to 880 000 BGL.

The comparing of the revenues with the costs leads to the conclusion that the direct efficiency is negative = 0.8 (880000/1 100 000), the loss amounts to about BGL 200 000. This means that a single and thorough inspection of a small area does not lead to the achievement of direct economic results. Meanwhile, from these inspections could be made the following conclusions:

! The mass inspection of the apartments in blocks, made on the spot, especially if there are no garages, does not produce any results. It could be a target inspection, held after an analysis of the property tax declarations. The analysis indicates that the inspection is justified only for 10 percent of the apartments - undeclared apartments or whose area has been intentionally under declared with more than 10 percent. In this case, the time for interviews and other forms of inspections on spot will drop from 60 to 20 man/days, and the costs will drop to about BGL 650 000. The direct economic effectiveness is already positive =

1.35. The discovered tax revenues exceed the costs with about BGL 230 000.

- ! The processing of bigger data bases does not lead to a proportional increase of the costs. The increased number and scope of the inspections decrease the costs and raise the effect. There is also expected an accompanying effect explained with the fact that a great part of the population will declare the properties, not declared by this moment.

It is necessary to have 10 inspections per year accompanied with media campaign and publication of the results in the local newspapers, including the names of the owners who have not declared their property.

The calculations for the accumulated effects show the following financial result. The total annual loss of tax revenues for the municipality amount to BGL 115 Million. If we accept that 20 percent of them are delayed due to organisational reasons, and are due to incompleteness of the data base, it is real to accept that the losses amount to about BGL 90 Million. The performance of 10 inspections (with the same scope) will cost BGL 8 Million and will lead to the direct determination or the voluntary declaring of a half of the undeclared properties, i.e., the tax revenues will increase with BGL 45 Million. The effect is already 5.6 times larger than the costs. The target inspections, suggested above, will lead to ratio of revenues to costs equal to 10:1. The regularity of the inspections during the next years would lead to a considerable increase of the effect.

The effectiveness of similar inspections is connected not only with the momentary economic component of the effect, but also with the achievement of goals as creation of tax discipline, tax justice, increase of consciousness, etc. These are unmeasurable effects, which reflect on the level of revenue collection. The inspection determined that the collection for the selected area is 90.8 percent. The tax inspection would be effective and would lead to an increase of this percentage, if they are conducted regularly and are accompanied with informing of the population about the results.

EVALUATION OF THE TAX BURDEN ON THE POPULATION

The property tax yield is quite low even after the rise in tax rates in 1998. The per capita yield of the tax in Plovdiv is about BGL3500 or just over US \$2.00. Although incomes in Bulgaria are quite low, the property tax burden is also quite low even when measured as a percentage of household income.



To help conduct the analysis and discussion of tax burden we have selected 3 case examples from our study. These three cases are shown in Table 28. The three cases are typical of the residential properties found in our sample. Table 28 shows the Property Valuation, actual taxes paid (after any exemptions), the Tax due (before exemptions) and an estimate of what the Tax would have been if calculated according to the Effective Tax Rate, i.e., 0.0909 percent of the Property Valuation. (Note: the ETR includes the effect of all of the multiple exemptions which makes it considerably lower than the statutory tax rate of 0.15 percent.³

³We may compare this ETR with the tax rates in countries where the local property tax is a major local revenue source. While rates vary from country to country, local property tax rates tend to average about 1 percent of rated market value of real property.

Table 28
Amount of the property tax for three real properties in the survey area

Property	Types of properties	sq.m.	Tax evaluation	Tax paid	Tax due	Tax according to ETR
1-st	Dwelling unit	88	5334100			
	Garage	26	2660900			
	Shelter	20	816100			
	Land	260	2730000			
	Total		11541100	13320	17310	10491
2-nd	Apartment in brick block	85.5	17526600	26280	26280	15932
3-rd	Apartment in panel block	67.7	9862000	7400	14800	8965

We will examine these examples in light of household income data. Table 29 shows the the most recent national household income data compiled by the National Statistical Institute in July 1998. The average household income level is BGL3.4 million annually or just about US \$2,000. The average household property tax burden in Plovdiv is about BGL10,000 or about 0.3 percent of gross household income. This is a very small burden especially when compared to countries where the local property tax is a major revenue source.

Table 29
Share of the property tax in the annual incomes of the households according to income groups*

Income groups (thousand BGL)	Share of the households	Average annual income of the household	1st property (13320 BGL)	2nd property (26280 BGL)	3rd property (7400 BGL)
Over 165	13.1	7286280	0.18	0.36	0.10
150-165	3.5	4723224	0.28	0.56	0.16
135-150	5.0	4374996	0.30	0.60	0.17
120-135	6.8	4156668	0.32	0.63	0.18
105-120	7.9	3834348	0.35	0.69	0.19
90-105	12.0	3280488	0.41	0.80	0.23
75-90	15.5	2727732	0.49	0.96	0.27
60-75	14.8	2154288	0.62	1.22	0.34
45-60	11.9	1744812	0.76	1.51	0.42
Under 45	9.5	1278216	1.04	2.06	0.58



Average	100.0	3387264	0.39	0.78	0.22
			11.60	37.70	—

*Average monthly incomes per member of household

For example, in the USA, local property taxes account for 3-4 percent of household income on average. For Bulgaria to reach this comparable level, it would have to raise the tax rate about 15 times. This would clearly be an unpopular move and would create some severe burdens on the lower income households. Clearly some sort of means tested relief would have to be provided to lower income households to make a significant rate hike acceptable.

Another way to approach this issue is by looking at the relationship between the income tax burden and the property tax burden. In the USA, for example, the ratio of local property tax burden to income tax burden is about 1 to 5. In Bulgaria, the ratio is about 1 to 50. The ratio can be shifted in favor of the local property tax by adjusting property tax rates upward while lowering income tax rates by a corresponding amount.

The analysis of average tax burden should not obscure the fact that the lower income households may have little ability to pay anything because of the nature of their household budgets. According to data of the National Statistical Institute from June 1998, the minimum necessary expenses of a household with average incomes, including food, electricity and a part of the announced expenses for dwelling, clothing, shoes and personal belongings, hygiene, health, education, transport and communications, and domestic household, amount to 75 percent of the total household budget. The two lowest income deciles, with 20 percent of the population, have incomes that average less than half the median income in the country (see Table 29) Clearly, these households are already living below the poverty line and could not be expected to increase local tax payments. Some form of targeted relief would have to accompany a rise in the property tax rates for these families.

INFORMATION OF THE POPULATION AND ATTITUDES FOR PAYMENT OF PROPERTY TAX

One of the important factors for effectiveness and efficiency of the tax policy is the link of the institutions, which administer and use the revenues from taxes, with the population. The information of the population is also a serious problem. The people would pay if:

- They knew where their money goes

- They think they receive adequate services from the one who gets their money

We received these answers from the questionnaire survey.



Information of the Population

When asked the question "Do you know who sets the amount of the tax?" only 21.4 percent from the interviewed have pointed correctly to the parliament. The highest is the percentage of those, who think that the property tax is set by the Regional Tax Office. The percentage of those who have pointed to the Minister of Finance is also high, and 1.5 percent have even indicated the IMF. The variety of many and wrong answers, as well as the percentage of those answering that they don't know, 16 percent, indicate that the information of the population is still insufficient.

The majority of the interviewed answer that they could pay the tax only in the tax office according to their residence. Only 6.3 percent know, that they can pay via bank transfer. The lack of knowledge for the possibilities of payment, could also be explained with the insufficient information.

The percentage of owners who know that the property tax is a local tax is also low. Only 34.3 percent from the interviewed knew that the receipts from property tax are used by the municipality. 32.9 percent think that the amounts are used by the state, and 14.2 percent by the tax administration itself.

Attitudes Towards Payment of the Tax

The tax due in 1998 is already paid by 79.3 percent of those interviewed in September, three months before the end of the year. Another 10.3 percent intend to pay their tax by the end of September. Till the end of the year 8.5 percent will pay their tax, and only 2 percent have not decided when to pay (Figure 1).

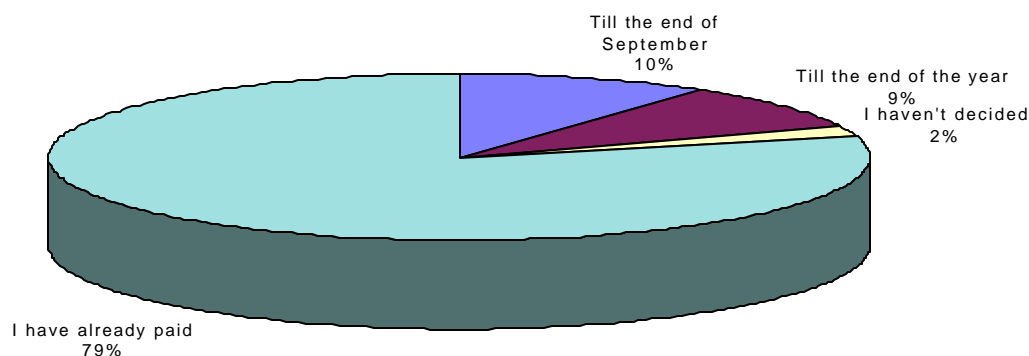


Figure 1
When do you intend to pay?

The high percentage of the people who have already paid and these who intend to pay, is connected with the tradition of the Bulgarian not to postpone the payment of his liabilities. Another important reason for which almost 80 percent from the owners have paid their tax, is that its amount is accepted as “normal” by 64.2 percent from the interviewed. Only 5.6 percent point, that the tax is too high and 27.7 determine it as too high. The percentage of those who state that the tax is low, is insignificant, 1.8 percent from the interviewed owners (See Figure 2).

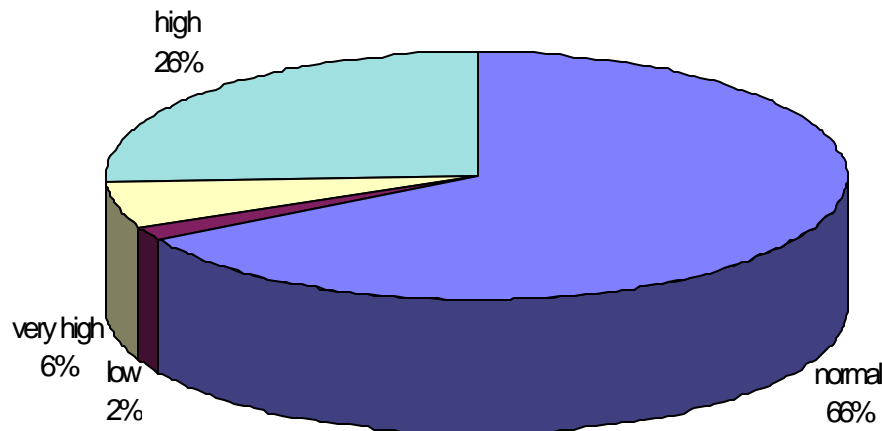


Figure 2
What do you think for the amount of the tax?

The answer to the question “How do you think to pay?” also confirms the conclusion that the amount of the tax is low and the owners have the opportunity to pay at one time. 91 percent from the interviewed desire to pay on installments as declared by 7.8 percent, and 1.2 percent have not decided how to pay. It is interesting that 75 percent from these who find the tax as high and very high have not used the possibility to postpone their payment and they have already paid.

CONCLUSIONS

The Plovdiv Project has devoted considerable attention to the operations of the local property tax, particularly as it had been revamped in the Law on Local Taxes and Fees. The revamping included a re-registration of all real property during the year and the imposition of a new valuation schedule and higher tax rates across the country. However, the system was fundamentally unchanged

in terms of overall structure and the basis for taxation - i.e., tax is based on a schedule of values keyed to area of buildings and land⁴.

The main finding with respect to the performance of the property tax is that the tax listings are relatively complete with approximately 94 percent of the housing and business premises listed, based on the sample survey conducted by the Plovdiv Project team in conjunction with the Regional Tax Office. The sample survey did find that the main deficit with the current system of "discovery" of tax objects is that improvements to property were occasionally missing, for example, building additions and garages, or conversions from residential to business usage. Even so, the sample survey concluded that 91.2 percent of total taxable objects (by value) were on the property tax rolls.

Collection efficiency of the property tax is also quite high in Plovdiv. In 1997, the collection was 95 percent. Within the first six weeks of the issuance of 1998 tax notices in August, fully 70 percent of the property owners had already paid in the municipality according to the RTO. In our sample district, almost 80 percent reported that they had paid.

The main problem with the property tax is that the tax rates are so low that the yield is quite low. Furthermore, this low yield is further reduced by a number of categorical exemptions that reduce the total yield by about 33 percent. The per capita yield of the property tax in Plovdiv will be about BGL 3,500 per person for 1998 or about US \$2.00. There is considerable debate over how high the tax rates could be raised given the low level of household income but clearly there is some room for increasing, our sample survey found less than one third of the households interviewed thought that the current rates were high.

The main problem with raising property tax rates is the added burden placed on low income households. Since it is estimated that over 90 percent of Bulgarian households own their own housing units, even the very poor are likely to be homeowners and thus directly subject to property tax rate increases. Some form of targeted tax relief, therefore, would need to be created for low income households in order to make a significant rate hike politically acceptable.

The Plovdiv Project team examined the question of whether the property tax should be turned over to municipal control. The findings are that:

- ! The municipal government does not now have the experience or systems to manage a large scale tax records system required by the

⁴The valuation schedule has differentiated categories base on type and age of buildings and "zones" of the cities as well as indexes for cities of differing sizes and economic condition.



property tax in Plovdiv. The property tax system in Plovdiv has a total tax roll of about 118,000 premises with 171,637 property owners (joint ownership requires separate tax liability)

- ! The tax yield is so low that it could not be justified on strictly financial terms to transfer the system - it would simply cost more to effect the transfer and the yield would possibly decline given that the collection efficiency is already quite high

Our survey found that the Plovdiv municipality, and especially the South District, maintain a very old cadastre. Considerable work would be required to bring the cadastre up to date and, at the same time, correct many of the administrative errors, such as wrong addresses, in the RTO property tax database. Clearly, the costs of establishing an accurate property tax system at the municipal level are much greater than can be justified by the current low yield of the tax today.

On the other hand, there are good arguments that the property tax should be made a principal local tax source under the direct control of the local governments. For that to happen, tax rates will have to rise considerably and local governments must acquire the capacity to manage a large scale tax system. In addition, there is growing sentiment among local governments that different localities be given the option to decide which tax sources should become their main sources and some control over the rates. This is particularly the case with the property tax where the larger cities have expressed an interest in being allowed to make the property tax a larger part of local revenues⁵.

We have noted above that the decision to raise the property tax rates may have to be coupled with a parallel decrease in the income tax rates as well as targeted tax relief for the poor. This argues for giving local governments some discretion in setting both the local property tax rates and the income tax rates, or at least that portion of the income tax that flows to local government.

Once it has been decided to allow the property tax to become a significant source of local revenue, another set of decisions will have to be made about whether the tax base should be changed to an *ad valorem* base, i.e., a system based on market value of the property. Such a change is certainly not justified unless rates rise substantially and the system of categorical exemptions are revamped and reduced. Furthermore, there is still some debate as to whether the property market is mature enough in Bulgaria to provide a sound basis for a market value basis⁶. These considerations are well beyond the scope of the current study but do deserve analysis if and when a decision is made to increase the importance of the property tax as a local revenue source.

To overcome the lack of local capacity to manage a large tax records system required by the property tax, the Plovdiv Project team has designed a follow-up effort which assists the municipality in developing a management

⁵See findings of the Policy Forum on Fiscal Decentralization in Bulgaria sponsored by the Foundation for Local Government Reform on November 3-4, 1998 in Sofia.

⁶The high level of individual home ownership in Bulgaria - estimated at between 90 percent and 95 percent - argues that conditions for a property market exist but the financial turmoil of the last several years and the lack of housing credit have impeded the functioning of the housing market.



information system (MIS) for local taxes and fees. The MIS links together the municipal departments dealing with taxes and fees with the Regional Tax Office and several other agencies that have data relevant to local tax and fee liability. The MIS will help tie together the information on tax and fee bases across the different offices and, at the same time, help the municipality to build the capacity to manage larger scale tax and fee collection systems.

In conducting the sample survey of property tax performance, the Plovdiv Project team developed a cost effective sample survey (inspection) approach which could be used in other cities to identify properties not on the tax rolls as well as errors in the tax listings. The sample inspection covered a n area of the city which contained slightly less than 1 percent of the total households and cost BGL 1.1 million to carry out.

The team has estimated that a set of 10 similar sample inspections to that conducted under the project would cost approximately BGL 6.5 million and should produce a minimum of BGL 45 million in additional tax revenues alone for Plovdiv. In addition, since the garbage collection fee for households is also based on the property tax base, any increase in property valuation results in a higher yield of the garbage fee. In the case of Plovdiv, the garbage fee has been set for 1998 to yield about 2.5 times the actual property tax for households, so the potential impact of the proposed sample inspection program should achieve a payoff ratio of more than one to twenty, i.e., for every one leva spent, the increase in property tax and garbage fee revenue combined would be twenty leva. Of course, any increase in overall tax rates will multiply the yield of the sample inspection program even further without raising the costs.

APPENDIX 1

Table 1

Comparison of the declared properties with those discovered by the questionnaire survey in the first sub-area (number)

Type of property	Property tax declarations		Interviews	
	Number	Declared more than the interviews	Number	Interviewed more than the declared
Apartments	108	44	100	36
Houses	82	—	50	7
Garages	26	7	24	5
Additional buildings	20	10	20	10
Commercial and other business sites	16	6	24	14

Table 2

Comparison of the declared properties with those discovered by the questionnaire survey in the first sub-area (number)

Type of property	Property tax declarations		Interviews	
	Number	Declared more than the interviews	Number	Interviewed more than the declared
Apartments	18	7	11	—
Houses	65	—	42	2
Garages	12	3	12	3
Additional buildings	13	4	22	3
Commercial and other business sites	6	—	12	6

APPENDIX 2

Comparative information according to the three kinds of inspections for 6 houses

Addresses:

- 1 address: 2, V. Ihchiev Street
- 2 address: 4, V Ihchiev Street
- 3 address: 13, V. Ihchiev Street
- 4 address: 20, V. Ihchiev Street
- 5 address: 42, Gorno Brodi Street
- 6 address: 1, Kichevo Street

All of them are situated in sub-area 2.

The land of 4 of the above addresses is correctly declared (1, 4, 5 and 6). On the second address there have been declared 80 sq.m. less (according to the cadaster plan— 230 sq.m., declared, 150 sq.m.). On the third address the land is declared twice, and respectively taxed twice (according to cadaster plan—257 sq.m., declared, 514 sq.m.).

Comparative data for the buildings

Address	Declarations		Interviews		Construction plans	
	Type of site	sq.m.	Type of site	sq.m.	Type of site	sq.m.
1	house	142	house		house	69+cellar
2	2 houses	80+121	2 houses	70+70	house 2 floors	81+81
	2 garages	15+15	2 garages	16-20		
3.	house	192+170	house		house 2 floors	83+83
	2 garages	30+17	garage office			
4	house 2floors	99+32	house		house	42.7
			shelter			cellar
			house	50		
			shelter	15		
5	house	191	house		house	77.2
	garage	15	garage			cellar
	commercial site	10.5	commercial site			
6	house	112	house		house	64+cellar
			commercial site			

Summary table (number)

Types of sites	Declarations	Interviews	Construction plans
Houses	9	8	6
Garages	5	4	—
Non-commercial sites	1	2	—
Shelters	—	2	—
Office	—	1	—

APPENDIX 3

Comparative information according to the three kinds of inspections for 4 brick blocks

Addresses:

- 1 address: 10, Lazar Madjarov Street
- 2 address: 50, Nikola Vaptzarov Boulevard.
- 3 address: 17, Kichevo Street
- 4 address: 14, Scopie Street

The first two brick blocks are situated in sub-area 1, and the rest in sub-area 2.

The land of both brick blocks in sub-area 1 is not declared. According to the cadaster it is totally 820 sq.m. (545 sq.m. and 275 sq.m.). The land on 17, Kichevo Street is 252 sq.m. according to the cadaster, but there have been declared 378 sq.m., i.e., with 1/2 more. On 14, Scopie Street The land has been correctly declared (243 sq.m.).

Comparative data for the buildings according to tax declarations

	1	2	3	4	Total
Houses	4	7	10	8	29
Garages	1	—	—	2	3
Shops	2	1	1	2	6
Total sq.m.	951.4	603.2	885.2	758.0	3197.8

According to Interviews

	1	2	3	4	Total
Dwelling units	?*	10	6	4	20
Garages	?	1	—	—	1
Shops	?	2	1	2	5
Total sq.m.					

*According to the questionnaire survey, the brick block on L. Madjarov Street is still not issued an occupancy permit, and is not inhabited. On this address there are a house and a garage too.

According to construction plans

	1	2	3	4	Total
Dwelling units	25	10	9	9	53
Garages	9	2	-	2	13
Shops	5	1	3	2	11

Total sq.m.	3133	946.4	743.6	1065	5888
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